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Dynamic Perspective of Value Appropriation

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Abstract

Firm performance is shaped by value creation and its appropriation, yet extant body of knowledge on management does not provide a comprehensive picture of value appropriation that captures its dynamic nature. Given that the recent advancements in the management field concerning development of the dynamic capabilities perspective shed more light on the core problem and this study draws on those advancements by approaching value appropriation with the dynamic capability-based framework. The aim of this article is to enhance understanding of the complex process of value appropriation by providing both the theoretical conceptualization and empirical evidence of its dynamic nature. Complying with the theory-building objective the research strategy was built on a longitudinal study and a multiple-case design.

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1. Introduction

The rationale for distinguishing and exploring value appropriation refers to the fact that the logic of value distribution may or may not follow the rules governing the value creation process. Hence, organizations can extract and appropriate less, equal or even more value that have actually created. Nevertheless, the number of research works devoted to the complex issues of value receiving, protecting and retaining is at the moment relatively modest. There is a paucity of coherent theoretical frameworks providing insights into the dynamic nature of value appropriation. Recent advancements in the management field concerning development of the dynamic capabilities perspective shed more light on the core problem and this study draws on those advancements by approaching value appropriation with the dynamic capability-based framework. The aim of this article is to enhance understanding of a

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complex and dynamic process of value appropriation by providing both the theoretical conceptualization and empirical evidence of a routine-based approach to replication of effective value appropriation practices and alternation of existing action patterns in response to perceived threats and opportunities. Thus the challenge concerns not as much recognition of value appropriation as an object of scientific inquiry but approaching in through a dynamic perspective that matches its inherently dynamic nature.

Given that to the best of author's knowledge, no studies have yet explored value appropriation practices with reference to dynamic capabilities perspective, and thus main contribution of this study does not concerns statistical generalizations of known constructs but the logic of the developed theoretical framework that expands existing theories on value appropriation, the research problem was addressed with a qualitative approach and a case study method. Complying with the theory-building objective the research strategy was build on a longitudinal study (interviews and direct observations in a period of 2012-2015, information retrieved from documentation – 1990-2015) and a multiple-case design involving pattern matching technique for data analysis.

2. Theoretical background

Scholars emphasize that necessary conditions for any purposive deployment of value creating resource combinations embrace not only existence of a particular opportunity and motivation, but equally include an expectation for capturing some value from that deployment (Moran & Ghoshal, 1997). In that case the very logic of wealth creation places value appropriation at the forefront of decision making on the resource deployment – value appropriation is not the mere collection of certain monetary amount at the moment of transaction (Najda-Janoszka, 2016). Meanwhile many scholars discussing the problem of value distribution tend to refer primarily to the neoclassical view of the firm (Bowman & Ambrosini, 2000; Lieberman & Balasubramanian, 2007) and thus provide a very narrow, static perspective. In order to reach beyond the mere transaction point, all parties engaged in value creation, through co-specialized investments of controlled resources, should be considered as legitimate claimants to that co-created value (Mahoney, 2012). Thus, the underlying theoretical ground for exploring value appropriation needs to encompass advancements that repeal the simplifying assumptions of the neoclassical perspective (Klein et al., 2012; Mahoney, 2012). Drawing on advances in institutional economics and strategic management contemporary understanding of value appropriation in the management field embraces both value receiving (point of transaction) and value retaining (longer time span), as it takes time to appropriate extracted value streams. Thus, activities undertaken along the value appropriation process involve also the use of modes for restricting competitive forces based on opportunity-driven entrepreneurial activity (Di Gregorio, 2013), bargaining power between given entities (Hamel, 1991), positions held within particular organizational and social structure (Burt, 1992), and isolating mechanisms influencing that power and positions (Rumelt, 1984). However, according to the contingency perspective the notions of those activities may vary depending on the level of analysis, as the spectrum of claimants differ between intra-organizational (employees, shareholders, managers, executives) and inter-organizational levels (competitors, complementors, suppliers, customers) (Lepak et al., 2007; Di Gregorio, 2013).

Given that value appropriation stands for a complex process involving a wide range of resources and capabilities across functional areas of a firm, it implicates that as any other organizational process is affected by changes in circumstances in which that firm operates. The dynamics of the environment generates difficult challenges for firms in terms of ensuring internal consistency and organizational stability on the one hand, while incorporating changes enabling strategic renewal, on the other (D'Aveni, 1994). Following that line of reasoning, the dynamics of value appropriation is expressed in both types of activities, those focused on building and implementing specific compositions of isolation mechanisms, as well as those concentrated on the reconfiguration of deployed compositions in response to changes in the environment. The dynamic capability perspective has been recognized as a promising step in research on complex issues related to the strategic renewal. Since the seminal article written by Teece, Pisano and Shuen (1997) the field of dynamic capabilities has been generating a significant and systematic growth of scholarly attention. Although the existing literature provides a wide spectrum of definitions as well as distinct views on the concept (Eisenhardt & Martin, 2000; Zahra, Sapienza & Davidsson, 2007; Barreto, 2010), it is generally agreed that the logic of dynamic capabilities lies in the intentional change in organizational action patterns (Helfat et al., 2007; Ambrosini & Bowman, 2009; Najda-Janoszka, 2015). Recognized in terms of organizational capacity, dynamic capabilities constitute a composite, abstract construct that require a cautious disaggregation

(Teece, 2007; Wang & Ahmed, 2007). The performative character of dynamic capabilities makes this task quite challenging (Zahra, Sapienza & Davidsson, 2006). According to research findings there is no one single dynamic capability as different types of dynamic capabilities may be activated simultaneously across different dimension of business activity of an organization (Eisenhardt & Martin, 2000; Wang & Ahmed, 2007; Burmann, 2002; Madsen, 2010). Formulated typologies confirm that at a certain level of abstraction dynamic capabilities exhibit commonalities that stretch over a range of firms or even industries (Eisenhardt & Martin, 2000). Moreover, there is an emerging consensus with regard to clusters of activities performed at the micro-level analysis of dynamic capabilities. Although the extant literature provides a quite wide spectrum of distinct measurement approaches, most of them are build on the notion of the initial operationalization proposed by Teece (2007), which entails all categories of micro-foundations (i.e. individuals, processes, structures and interactions between them) across three main activity clusters of sensing, seizing and reconfiguring. Given that both quantitative and qualitative studies confirm a high reliability of this approach, it was used as a guideline and a point of reference for the operationalization of dynamic capabilities deployed for branching activity patterns of value appropriation.

3. Methodology

The aim of this study was to enhance understanding of a complex and context-bound process of value appropriation by developing a dynamic capability-based framework of value appropriation. Therefore, the main research question was formulated as follows: Does the pattern branching response to identified opportunities or threats tend to be structured along activity clusters of dynamic capabilities? Providing answer to such question implicated elaboration of “theoretical links not previously addressed in the literature” (Gilbert, 2005, p. 743). Accordingly, the problem was addressed with a qualitative approach and a study case method, while the research strategy was build on a multiple-case design. Collected sample consisted of five cases, which constitutes a manageable number for a reliable and comprehensive analysis (Eisenhardt, 1989). Because of the sensitivity of the collected data, the names of investigated firms were disguised.

Table 1. Description of investigated firms

Case	Main business activity	Number of employees (2014)	Turnover (2014) (PLN in thousands)	Established
Case A	Complex and integrated marketing services	22	>1 000 PLN	2004
Case B	Design and construction of data processing centers	10	~1 000 PLN	2008
Case C	Trade of industrial electronics	34	>10 000 PLN	1987
Case D	Production of suppressors and transformers	307	>100 000 PLN	1991
Case E	Technology solutions for transportation	42	~10 000 PLN	1991 – corporation 2010 – business unit

In order to reduce a systematic bias in the gathered data and to enhance credibility of the investigation two kinds of triangulation were applied: methodological and data triangulation. Data were collected by means of face-to-face semi-structured interviews (two rounds of a total of 24 in-depth, two to three hour in-person interviews with highly knowledgeable managers of selected firms and collaborating partners conducted in years 2012 – 2015), direct observations (13 observations conducted over a period of two years from March of 2013 till May of 2015), extraction from internal primary (a total of 71 documents), and external secondary sources (press releases, industry statistics and reports). All relevant information was retrieved according to a developed data collection protocol and was recorded into the case study database. A dedicated software application Atlas.ti. was used to enhance storing, managing and analyzing gathered information.

Guided by the replication logic, resulting individual case conclusions were considered as subjects to be confirmed or disconfirmed by other cases. During cross-case analysis the extent of the replication logic with regard to activity clusters of dynamic capabilities used for introducing change in value appropriation practices was determined providing salient insights for the emerging theory.

4. Results

In all cases the core knowledge area, the main source of generated value streams, was technology-based. According to the gathered evidence investigated firms used a broad spectrum of isolating mechanisms in order to capture generated value streams. Firms combined formal and informal protection mechanisms, as well as diverse procedures aiming at cost reduction. However, exhibited approaches underwent significant changes during the period under examination. Comparison between initial stage, reflecting a minimal threshold of functionality of an organizational capability for value appropriation (Helfat & Peteraf, 2003), and current compositions of isolation mechanisms indicated that changes in the value appropriation action patterns concerned the quantity, diversity and combination of deployed mechanisms. Moreover, the change process was readably enhanced by existing learning processes. In all of analyzed cases activation of dynamic capabilities coincided with certain trends and events occurring in business environment of given firms – selection factors (Table 2). With regard to the sensing cluster, a focused search, initiated by an internal gap analysis, prevailed over scanning distant knowledge and capabilities, not directly linked to current problems. Further, all firms were engaged in reviewing collected information in order to figure out implications for subsequent action. Comparison of evidence referring to the seizing cluster revealed that all investigated firms decided to reach beyond the current resource base to formulate a proper response. Obtained findings confirm an extensive approach toward resource acquisition, which was driven by recognized shortages in resource portfolio (Case A, Case E) as well as the need to increase the degree of resource redundancy (Case B, Case C, Case D, Case E).

Table 2. Evidenced activity clusters of dynamic capabilities used for changing action patterns of value appropriation

Case	Selecting factor	Sensing		Seizing	Reconfiguring
		Sensed opportunity/threat	Activities		
Case A	Economic growth, growing marketing budgets, increasing competition (emergence 2005-2008)	Opportunity for broadening value streams	<ul style="list-style-type: none"> • Focused search: internal resource base, new customers, financial support, solutions provided by competitors • Filtering: accessibility through networks of personal relationships, cost of financial support, extended functionalities 	<ul style="list-style-type: none"> • Existing resource base: engaging currently employed staff into formulating new product offers based on newly developed solutions • Internalization: hiring IT specialists, developing proprietary IT platform and system solution for logistics, acquiring new knowledge through professional trainings for project managers • Remote access: contracting IT specialists 	<ul style="list-style-type: none"> • Renewal/recombination: integration of new systems with extant technologies and organizational capabilities
Case B	Unreliable business partners (emergence 2010-2011)	Threat of financial collapse and weakening market position	<ul style="list-style-type: none"> • Focused search: internal resource base, market trends, risk reduction possibilities • Filtering: investment requirements, stability of potential value streams 	<ul style="list-style-type: none"> • Existing resource base: new procedures and reconfiguration of existing resource base • Internalization: using property of the owner for a new business activity • Remote access: assessing knowledge and information through networks of business relationships 	<ul style="list-style-type: none"> • Renewal/recombination: diversification of business activity – recombination of extant and new capabilities; value creation process rearrangement, extension and reconfiguration of capabilities along new system and organizational culture of discretion

	Dynamic market growth (emergence 2013-2015)	Opportunity for broadening value streams	<ul style="list-style-type: none"> • Focused search: internal resource base, market trends with a reference to provided technologies • Filtering: stability and reliability of potential value streams 	<ul style="list-style-type: none"> • Existing resource base: new procedures for customer evaluation • Internalization: acquiring new knowledge through professional trainings for project managers, obtaining security certificates • Remote access: networks of industry professionals 	<ul style="list-style-type: none"> • Replication/redeployment: entering new business segments • Renewal/recombination: extension and reconfiguration of capabilities along new system and organizational culture of discretion
Case C	Increase of competition, market growth (emergence 1995-2008, 2012-2015)	Threat of misappropriation of value streams	<ul style="list-style-type: none"> • Focused search: internal resource base, market trends, competition, technology advances • Filtering: investment requirements, volume of potential value streams 	<ul style="list-style-type: none"> • Existing resource base: expanding service activity • Internalization: purchase of CRM system • Remote access: enlarged portfolio of cooperating suppliers 	<ul style="list-style-type: none"> • Retirement/retrenchment: changing regional sales offices to service centers • Replication/redeployment: developing own product line and own trademark, diversification in areas of complementary technology, entering foreign markets • Renewal/recombination: reconfiguration due to philosophy of CRM
	Economic crisis (emergence 2009-2010)	Threat of weakening market position	<ul style="list-style-type: none"> • Focused search: internal resource base, market trends, competition, technology advances • Broad scanning: foreign markets, advances in complementary technologies • Filtering: stability and reliability of potential value streams 	<ul style="list-style-type: none"> • Existing resource base: improvement of management practices • Internalization: obtaining financial support from the EU funds • Remote access: contracting external engineers for servicing; developing business relations at foreign markets 	<ul style="list-style-type: none"> • Retirement/retrenchment: closing regional offices with inefficient performance • Replication/redeployment: entering foreign markets • Renewal/recombination: implementation of a new training system (across organization and external specialists)
Case D	Saturation of the market, increase of competition (emergence 2012-2015)	Threat of diminishing returns	<ul style="list-style-type: none"> • Focused search: internal resource base, market trends regulations, technology advances • Broad scanning: advances in production technologies and materials • Filtering: investment and time requirements, compatibility with knowledge base, volume and reliability of value streams 	<ul style="list-style-type: none"> • Existing resource base: investing in R&D, creating new department, optimization of resource usage • Internalization: hiring R&D and procurement specialists • Remote access: introducing new manufacturers into developed network of suppliers 	<ul style="list-style-type: none"> • Retirement/retrenchment: reorganization through cost reduction and lean management implementation • Renewal/recombination: reorganization through cost reduction and lean management implementation, improvement of management practices and implementation of X-team technique, introducing and integrating new areas of expertise in R&D
Case E	digitization, convergence of technologies (emergence 1991-2015)	Opportunities for extending and strengthening value streams	<ul style="list-style-type: none"> • Focused search: internal resource base, market trends, technology advances across industries • Broad scanning: market trends, advances in close and remote technologies, social changes • Filtering: technological synergy, volume of potential value streams 	<ul style="list-style-type: none"> • Existing resource base: internal staff trainings • Internalization: acquisition of new businesses • Remote access: developing networks of business partnerships 	<ul style="list-style-type: none"> • Retirement/retrenchment: closing departments and business areas not corresponding to new strategic directions • Replication/redeployment: expanding into acquired business areas • Renewal/recombination: integration of newly acquired knowledge with existing capabilities, structural reorganization along new promising business areas

Sophistication of market demand, growing competition (emergence 2011-2015)	Threat of diminishing returns, weakening market position	<ul style="list-style-type: none"> • Focused search: internal resource base, market trends, technology advances, competitors' solutions • Broad scanning: technology advances • Filtering: stability and reliability of potential value streams 	<ul style="list-style-type: none"> • Existing resource base: defining budget for R&D activity • Internalization: hiring new specialists, new knowledge through professional trainings for project managers • Remote access: networks of cooperation with a provider of a new technological solution 	<ul style="list-style-type: none"> • Renewal/recombination: reorganization and developing new R&D activity, integration of newly acquired knowledge with existing capabilities
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Implementation of a designed structured response to strategic discontinuities affecting value appropriation. involved branching current trajectories of operational capabilities. Obtained results confirm that depending on the nature of perceived opportunities and threats, richness and diversity of available resources and capabilities, investigated firms decided to cease certain activities (retirement, retrenchment), extend deployment of other capabilities (replicate, redeployment), or reconfigure the content of performed lines of action (renewal, recombination).

5. Discussion

A cross case analysis confirmed existence and replication of specific action patterns focused on introducing changes into value appropriation practices (Yin, 2014). A structured response to identified stimuli reflected three activity clusters of dynamic capabilities: sensing, seizing and reconfiguring (Teece, 2007). In all analyzed cases the change process was initialized through a particular perception of selection factors (Helfat & Peteraf, 2003). It complies with theoretical suppositions that refer to the notion of dynamics in the dynamic capabilities perspective (Eisenhardt & Martin, 2000; Teece, 2007; Helfat et al., 2007). Depending on the type of selection factor and the size of existing resource base, firms engaged in focused search with regard to identified problems or reached for a more demanding line of action defined as broad scanning, which reaches beyond currently explored areas of knowledge. More sophisticated approach toward searching resulted in more intense reconfiguration of deployed capabilities for value appropriation (Huber, 1991; Teece, 2007). Information generated through searching and scanning was filtered through a parsimonious sets of criteria. In all cases the bottom line of evaluation referred to volume, stability and/or reliability of generated value streams. Sensed opportunities and threats referred directly to value appropriation mechanisms (e.g. threat of misappropriation of value streams due to actions undertaken by unreliable cooperator) or related to more broad possibilities for new value creation (e.g. addressing value capture risks and possibilities when identifying a chance for entering a new market).

Nevertheless, not all identified stimuli were addressed with dynamic capabilities. An alternative mechanism of ad-hoc problem solving was also deployed (Winter, 2003; Helfat & Peteraf, 2003). This way of responding was generally activated when firms decided to address individual, single events perceived as threats (e.g. circumventing contract procedures or encryption practices in pursuit of higher time-cost efficiency). Firms tended to reach for dynamic capabilities to formulate a response to broader sets of events and trends. This observation is in line with arguments about the cost of developing and implementing dynamic capabilities (Winter, 2003). Moreover, it highlights the issue of trade-offs between operational flexibility enhancement and cohesiveness of the underlying logic of value capture policy.

With regard to seizing, observed activities were focused on providing access to required resources and capabilities, and then on defining their optimal combinations that align with strategic objectives of investigated firms (Teece, 2007). According to the findings all firms exhibited a broad sourcing approach, reaching beyond existent resource base, and thus reflecting an integrative approach embracing both exploitative and explorative dimension (March, 1991), which complies with the theoretical grounding of the dynamic capabilities perspective (Teece, 2007). This integrative approach enabled firms to introduce a whole spectrum of path-breaking solutions to sensed stimuli (Helfat & Peteraf, 2003). Moreover, in accordance to theoretical suppositions obtained findings confirmed

simultaneous implementation of different branches for breaking current trajectories of value appropriation capabilities (Helfat & Peteraf, 2003).

Further, functionality of deployed dynamic capabilities was driven by the efficiency of underlying learning processes (Winter, 2003; Helfat & Peteraf, 2003). Gaps and drawbacks in a recursive cycle of organizational learning observed in Firm A substantially reduced the functionality of developed dynamic capabilities. In result, subsequent attempts to develop a salient structural approach to manage change were bounded from the very beginning as each new project represented a new venture using only individual, selective experience.

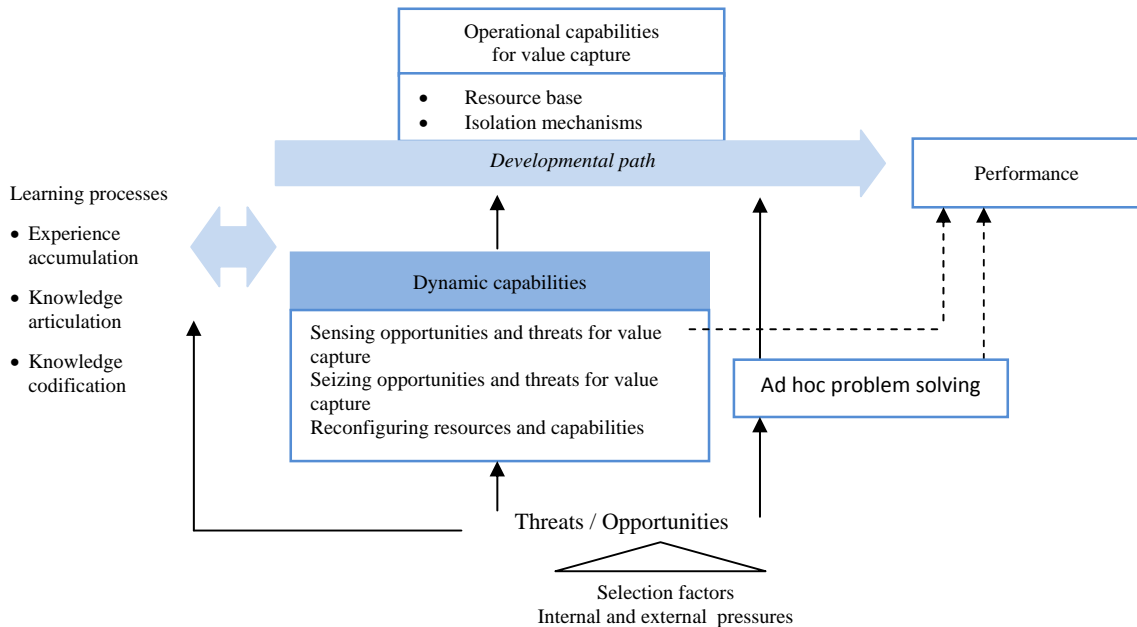


Fig.1 Dynamic capability-based framework of value appropriation

Collected research material provided a rich empirical content enabling a cohesive synthesis of theoretical reflections on the dynamic of value appropriation into a dynamic capability-based framework of value appropriation (Fig.1). Although not all indicators defined for each activity cluster were observed in each case (e.g. broad scanning in sensing cluster, retirement/retranchment and replication/redeployment in reconfiguration), this absence was consistent with the adopted theoretical basis (Yin, 2014). Moreover, the observable direct outcome of deployed dynamic capabilities referred to the operational level capabilities, i.e. resource base and isolation mechanisms. It complies with the logic of the two-step mediation model, according to which the influence of dynamic capabilities on overall firm's performance is indirect through that operational level (Zahra et al., 2006).

6. Conclusions

The extant literature lacks a comprehensive, formal proposition for approaching the dynamic nature of value appropriation action pattern. Incorporating the dynamic capabilities perspective enhanced the understanding that value is not captured instantaneously as it takes time to appropriate extracted value streams, and during that time a conducted action pattern can change through incremental improvements or a deep reconfiguration (capability branching). The dynamic capability-based framework of value appropriation formulated on the basis of gathered research material has enabled conceptualization and exploration of value capture in a dynamic perspective, beyond a point of transaction. While indicating contribution to the theory of management it is also important to identify certain limitations of the study. Although obtained results enabled analytical generalization, a limited number of five

cases requires a cautious reflection on contextual conditions and implications of the study. Nevertheless, those limitations do not reduce the value of formulated dynamic capability-based framework of value appropriation and obtained findings, they should be treated as a point of departure for subsequent studies.

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